

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Charter Township of Gaines	County Kent
Fiscal Year End December 31, 2006	Opinion Date May 7, 2007	Date Audit Report Submitted to State May 17, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

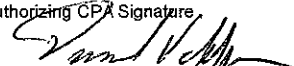
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No comments considered necessary	
Other (Describe)	<input checked="" type="checkbox"/>	SAS #112 communication	
Certified Public Accountant (Firm Name) Siegfried Crandall, PC		Telephone Number (269) 381-4970	
Street Address 246 East Kilgore Road		City Kalamazoo	State MI
		Zip 49002	
Authorizing CPA Signature 		Printed Name Daniel L. Veldhuizen, CPA	
		License Number 1101020724	

Charter Township of Gaines
Kent County, Michigan
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
Year ended December 31, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Charter Township of Gaines
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Charter Township of Gaines' (the Township) financial performance provides a narrative overview of the Township's financial activities for the fiscal year ended December 31, 2006. Please read it in conjunction with the Township's financial statements.

FINANCIAL HIGHLIGHTS

- The Township's total net assets increased by \$1,861,575 (2.5 percent) as a result of this year's activities. Net assets of the governmental activities increased by \$636,950 and net assets of the business-type activities increased by \$1,224,625.
- Of the \$75,785,200 total net assets reported, \$11,788,981 (15.6 percent) is unrestricted, or available to be used at the Board's discretion.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$476,240, which represents 21 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The Township's basic financial statements are comprised of three parts: management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township, reporting the Township's operations in more detail than the government-wide financial statements.
 - Governmental fund statements tell how general government services, like public safety, were financed in the short-term, as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business, such as the sewer and water systems.
 - Fiduciary fund statements provide information about the financial relationships in which the Township acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

A comparative analysis of the basic financial statements for 2006 and 2005 is also presented.

Charter Township of Gaines
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Government-wide financial statements

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets (the difference between the Township's assets and liabilities) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors, such as changes in the Township's property tax base and the condition of the Township's capital assets.

The government-wide financial statements are divided into two categories:

- *Governmental activities* - Most of the Township's basic services are included here, such as fire and police protection and general government. State shared revenue and property taxes finance most of these activities.
- *Business-type activities* - The Township charges fees to customers to help it cover the costs of certain services it provides. The Township's sewer and water systems are reported here as well as its construction code inspection services.

Fund financial statements

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Township Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Township has three kinds of funds:

- *Governmental funds.* Most of the Township's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out and, (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.

Charter Township of Gaines
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

- *Proprietary funds.* Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In fact, the Township's enterprise funds are the same as its business-type activities but provide more detail and additional information, such as cash flows.
- *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The Township's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net assets. Total net assets at the end of the fiscal year were \$75,785,200, an increase of 2.5 percent compared to the prior year. Of this total, \$63,871,779 is invested in capital assets and \$124,440 is restricted for various purposes. Consequently, unrestricted net assets were \$11,788,981, or 15.5 percent of the total.

Condensed financial information
Net Assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Other assets	\$ 2,525,298	\$ 1,702,459	\$ 10,895,071	\$ 10,784,690	\$ 13,420,369	\$ 12,487,149
Capital assets	<u>8,044,580</u>	<u>8,020,892</u>	<u>55,827,199</u>	<u>54,518,796</u>	<u>63,871,779</u>	<u>62,539,688</u>
Total assets	<u>10,569,878</u>	<u>9,723,351</u>	<u>66,722,270</u>	<u>65,303,486</u>	<u>77,292,148</u>	<u>75,026,837</u>
Current liabilities	<u>1,099,952</u>	<u>890,375</u>	<u>406,996</u>	<u>212,837</u>	<u>1,506,948</u>	<u>1,103,212</u>
Net assets:						
Invested in capital assets	8,044,580	8,020,892	55,827,199	54,518,796	63,871,779	62,539,688
Restricted	124,440	132,014	-	-	124,440	132,014
Unrestricted	<u>1,300,906</u>	<u>680,070</u>	<u>10,488,075</u>	<u>10,571,853</u>	<u>11,788,981</u>	<u>11,251,923</u>
Total net assets	<u>\$ 9,469,926</u>	<u>\$ 8,832,976</u>	<u>\$ 66,315,274</u>	<u>\$ 65,090,649</u>	<u>\$ 75,785,200</u>	<u>\$ 73,923,625</u>

Change in net assets. The Township's total revenues are \$8,940,101. Over 47 percent of the revenues come from charges for services, primarily from sewer and water services. Nearly 15 percent of the total revenues come from state shared revenue while only 7 percent come from property taxes.

Charter Township of Gaines
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The total cost of all the Township's programs, covering a wide range of services, totaled \$7,078,526. Nearly 60 percent of the Township's costs relate to the provision of utility services. Public safety and general government each account for approximately 13 percent of the Township's total costs.

Condensed financial information
Changes in Net Assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Program revenues:						
Charges for services	\$ 579,077	\$ 408,430	\$ 3,648,522	\$ 3,721,171	\$ 4,227,599	\$ 4,129,601
Operating grants and contributions	13,361	17,475	-	-	13,361	17,475
Capital grants and contributions	145,525	-	1,701,045	1,920,902	1,846,570	1,920,902
General revenues:						
Property taxes	603,960	687,284	-	-	603,960	687,284
State shared revenue	1,387,998	1,394,765	-	-	1,387,998	1,394,765
Other	314,518	253,344	459,136	327,124	773,654	580,468
Gains on sales of capital assets	86,959	-	-	-	86,959	-
Total revenues	<u>3,131,398</u>	<u>2,761,298</u>	<u>5,808,703</u>	<u>5,969,197</u>	<u>8,940,101</u>	<u>8,730,495</u>
Expenses:						
Legislative	11,760	10,995	-	-	11,760	10,995
General government	922,542	869,129	-	-	922,542	869,129
Public safety	970,484	947,851	-	-	970,484	947,851
Public works	362,338	280,630	-	-	362,338	280,630
Community and economic development	147,865	183,296	-	-	147,865	183,296
Health and welfare	36,289	-	-	-	36,289	-
Culture and recreation	43,170	34,618	-	-	43,170	34,618
Interest	-	45,265	-	-	-	45,265
Inspections	-	-	338,846	354,149	338,846	354,149
Sewer	-	-	2,472,248	2,228,187	2,472,248	2,228,187
Water	-	-	1,772,984	2,163,606	1,772,984	2,163,606
Special item - transfer of capital assets	-	-	-	1,206,035	-	1,206,035
Total expenses	<u>2,494,448</u>	<u>2,371,784</u>	<u>4,584,078</u>	<u>5,951,977</u>	<u>7,078,526</u>	<u>8,323,761</u>
Increase in net assets	<u>\$ 636,950</u>	<u>\$ 389,514</u>	<u>\$ 1,224,625</u>	<u>\$ 17,220</u>	<u>\$ 1,861,575</u>	<u>\$ 406,734</u>

Governmental activities

Governmental activities increased the Township's net assets by \$636,950 in 2006 compared with a \$389,514 increase in 2005. The increase in 2006 is the result of an increase in revenues, including charges for services (\$171,000), capital contributions (146,000) and gains on sales of capital assets (\$87,000).

The cost of all governmental activities this year was \$2,494,448. After subtracting the direct charges to those who directly benefited from the programs (\$579,077), and operating and capital grants (\$158,886), the "public benefit" portion covered primarily by property taxes and state revenue sharing, was \$1,756,485.

Business-type activities

Business-type activities increased the Township's net assets by \$1,224,625 in 2006 compared to an increase of \$17,220 in 2005. The increase in 2006 can be attributed primarily to developer contributions (\$970,000).

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental funds. As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$1,425,346, an increase of \$613,262 in comparison with the prior year. The increase occurred because of the revenue increases noted above and an effort to control costs. Of the total fund balances, 97 percent constitutes unreserved fund balance, which is available for spending at the Board's discretion. The remainder of fund balance, in the amount of \$46,740, is reserved to indicate that it is not available for new spending because it is legally restricted for street lighting expenditures.

The General Fund is the chief operating fund of the Township. At the end of the fiscal year, unreserved fund balance was \$476,240, which represents 21 percent of the actual total General Fund expenditures for the current fiscal year. Revenues exceeded expenditures in 2006 by \$702,982 because of the increase in property tax revenues and charges for services, notably tax administration fees. The fund also recognized a one-time revenue item related to the sale of land in the amount of \$86,959. The fund balance increased by only \$80,482 due to transfers to special revenue funds totaling \$622,500.

Proprietary funds. The Sewer Fund experienced an operating loss of \$767,450. However, net assets increased by \$119,870 due to substantial nonoperating revenues totaling \$887,320. Net assets were \$38,562,503 at year end while net working capital amounted to \$5,181,540.

The Water Fund experienced an operating loss of 88,868. However, net assets increased by \$1,183,993 due to substantial nonoperating revenues totaling \$1,272,861. Net assets were \$27,387,025 at year end while net working capital amounted to \$4,744,893.

The Building Inspections Fund experienced an operating loss of \$79,238. Net assets were \$365,746 at year end.

General Fund budgetary highlights

The difference between the original budget and the final amended budget for expenditures was an increase of \$42,699 primarily due to an increase in anticipated police protection and capital outlay expenditures. Revenues were \$184,722 more than anticipated while expenditures were \$404,145 less than the amounts appropriated. These variances resulted in a \$588,867 positive budget variance and an \$80,482 increase in fund balance compared to a budgeted decrease of \$508,385.

Expenditures were \$404,145 less than the amounts appropriated due to the following circumstances:

- Fire protection costs were \$125,440 less than budgeted due to lower than anticipated payroll at the Dutton Fire Department and reimbursements from Byron Township related to its share of certain costs at the Cutlerville Fire Department.
- General administration expenditures were \$94,123 less than anticipated primarily due to lower than anticipated contractual services costs, including legal fees, and staffing changes where positions were temporarily vacant and new employees were hired at lower hourly pay rates.
- Planning and zoning expenditures were \$52,554 less than anticipated primarily because contractual services were postponed until 2007.
- Road improvements and trail costs were \$50,466 less than planned because grant funding was not available in 2006.

Capital assets and debt administration

Capital assets

The Township's investment in capital assets for its governmental and business-type activities as of December 31, 2006, amounts to \$63,871,779 (net of accumulated depreciation). This investment includes a broad range of assets, including buildings, fire equipment, and sewer and water facilities. The increase in the Township's net investment in capital assets for the current fiscal year was \$1,332,091.

Major capital asset events during the current fiscal year included the following:

- Continued expansion of the sewer and water systems totaling \$2,689,264.
- Street improvements made through the Vision for Division totaling \$258,646.

More detailed information about the Township's capital assets is presented in Note 5 of the notes to the basic financial statements.

Economic condition and outlook

The Township was able to end 2006 with a net increase of \$613,262 in the fund balances of the governmental funds which gives us adequate capital to handle emergency expenditures and make limited investments in anticipated capital projects. Virtually all of our departments finished the year under budget as expenditures have been carefully monitored throughout the year. Capital projects involving parks, trails, and building renovations have been placed on hold as we continue to seek grant funding.

Currently, our fund balances are reasonably healthy for day to day operations; however, with increasing demands for services coupled with increasing costs it is imperative that future funding needs be addressed. Public safety costs continue to escalate with nearly \$1,200,000 budgeted for 2007 which is nearly twice the amount of property tax revenue. The significance and escalation of these costs have made it necessary to establish a public safety committee to evaluate future financing of those services.

With regard to our utility services, the Township is spending \$4,449,847 for the construction of a high pressure water main district and supporting infrastructure during 2006 and 2007. The costs will be funded by available resources in the Water Fund without having to issue bonds which will provide substantial savings of interest costs to our system customers.

Contacting the Township's financial management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Donald Hilton, Township Supervisor
Charter Township of Gaines
8555 Kalamazoo Avenue, SE
Caledonia, MI 49316

Phone: (616) 698-6640

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Charter Township of Gaines, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Gaines, Michigan, as of December 31, 2006, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Gaines, Michigan, as of December 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 12 to the financial statements, the Township corrected its method of accounting for tax administration fees.

The management's discussion and analysis and budgetary comparison information, as listed in the contents, are not required parts of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees
Charter Township of Gaines, Michigan
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Gaines, Michigan's basic financial statements. The accompanying supplementary information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Siegfried Crandall P.C.

May 7, 2007

BASIC FINANCIAL STATEMENTS

Charter Township of Gaines
STATEMENT OF NET ASSETS
December 31, 2006

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 1,423,560	\$ 5,333,351	\$ 6,756,911
Investments	53,047	4,091,211	4,144,258
Receivables	1,048,691	1,211,309	2,260,000
Prepaid	-	63,304	63,304
Total current assets	<u>2,525,298</u>	<u>10,699,175</u>	<u>13,224,473</u>
Noncurrent assets:			
Receivables	-	195,896	195,896
Capital assets not being depreciated	1,669,991	1,684,981	3,354,972
Capital assets, net of accumulated depreciation	<u>6,374,589</u>	<u>54,142,218</u>	<u>60,516,807</u>
Total noncurrent assets	<u>8,044,580</u>	<u>56,023,095</u>	<u>64,067,675</u>
Total assets	<u>10,569,878</u>	<u>66,722,270</u>	<u>77,292,148</u>
LIABILITIES			
Current liabilities:			
Payables	293,282	406,996	700,278
Deferred revenue	<u>806,670</u>	<u>-</u>	<u>806,670</u>
Total current liabilities	<u>1,099,952</u>	<u>406,996</u>	<u>1,506,948</u>
NET ASSETS			
Invested in capital assets	6,374,589	54,142,218	60,516,807
Restricted for:			
Public works	66,475	-	66,475
Culture and recreation	57,965	-	57,965
Unrestricted	<u>2,970,897</u>	<u>12,173,056</u>	<u>15,143,953</u>
Total net assets	<u>\$ 9,469,926</u>	<u>\$ 66,315,274</u>	<u>\$ 75,785,200</u>

See notes to the financial statements

Charter Township of Gaines
STATEMENT OF ACTIVITIES
Year ended December 31, 2006

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>		
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Governmental activities:				
Legislative	\$ 11,760	\$ -	\$ -	\$ -
General government	922,542	405,115	-	-
Public safety	970,484	-	-	-
Public works	362,338	158,737	13,361	145,215
Community and economic development	147,865	15,225	-	-
Health and welfare	36,289	-	-	-
Culture and recreation	43,170	-	-	310
Total governmental activities	<u>2,494,448</u>	<u>579,077</u>	<u>13,361</u>	<u>145,525</u>
Business-type activities:				
Sewer	2,472,248	1,704,798	-	659,818
Water	1,772,984	1,684,116	-	1,041,227
Inspections	338,846	259,608	-	-
Total business-type activities	<u>4,584,078</u>	<u>3,648,522</u>	<u>-</u>	<u>1,701,045</u>
Totals	<u>\$ 7,078,526</u>	<u>\$ 4,227,599</u>	<u>\$ 13,361</u>	<u>\$ 1,846,570</u>

General revenues:

Property taxes
State grants
Interest income
Cable franchise fees
Gains on sales of capital assets

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenue and changes in net assets

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
\$ (11,760)		\$ (11,760)
(517,427)		(517,427)
(970,484)		(970,484)
(45,025)		(45,025)
(132,640)		(132,640)
(36,289)		(36,289)
<u>(42,860)</u>		<u>(42,860)</u>
 <u>(1,756,485)</u>		 <u>(1,756,485)</u>
	\$ (107,632)	(107,632)
	952,359	952,359
	<u>(79,238)</u>	<u>(79,238)</u>
	 <u>765,489</u>	 <u>765,489</u>
 <u>(1,756,485)</u>	 <u>765,489</u>	 <u>(990,996)</u>
603,960	-	603,960
1,387,998	-	1,387,998
137,070	459,136	596,206
177,448	-	177,448
<u>86,959</u>	<u>-</u>	<u>86,959</u>
 <u>2,393,435</u>	 <u>459,136</u>	 <u>2,852,571</u>
636,950	1,224,625	1,861,575
<u>8,832,976</u>	<u>65,090,649</u>	<u>73,923,625</u>
 <u>\$ 9,469,926</u>	 <u>\$ 66,315,274</u>	 <u>\$ 75,785,200</u>

See notes to the financial statements

Charter Township of Gaines
BALANCE SHEET - governmental funds

December 31, 2006

	<u>General</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
ASSETS			
Cash	\$ 437,988	\$ 985,572	\$ 1,423,560
Investments	53,047	-	53,047
Receivables	968,691	80,000	1,048,691
Total assets	<u>\$ 1,459,726</u>	<u>\$ 1,065,572</u>	<u>\$ 2,525,298</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payables	\$ 130,076	\$ 163,206	\$ 293,282
Deferred revenue	806,670	-	806,670
Total liabilities	<u>936,746</u>	<u>163,206</u>	<u>1,099,952</u>
Fund balances:			
Reserved for street lighting	46,740	-	46,740
Unreserved, undesignated	476,240	-	476,240
Unreserved, undesignated reported in non-major special revenue funds	-	902,366	902,366
Total fund balances	<u>522,980</u>	<u>902,366</u>	<u>1,425,346</u>
Total liabilities and fund balances	<u>\$ 1,459,726</u>	<u>\$ 1,065,572</u>	<u>\$ 2,525,298</u>
Total fund balances - all governmental funds			\$ 1,425,346
Amounts reported for <i>governmental activities</i> in the statement of net assets (page 5) are different because:			
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds			<u>8,044,580</u>
Net assets of <i>governmental activities</i>			<u>\$ 9,469,926</u>

See notes to the financial statements

Charter Township of Gaines**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - governmental funds**

Year ended December 31, 2006

	<u>General</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
REVENUES			
Property taxes	\$ 915,978	\$ -	\$ 915,978
State grants	1,401,359	-	1,401,359
Contribution from local unit	-	122,500	122,500
Charges for services	244,042	-	244,042
Interest and rentals	135,595	23,401	158,996
Other:			
Special assessment - street lighting	135,268	-	135,268
Proceeds from sale of capital asset	86,958	-	86,958
Miscellaneous	43,272	23,025	66,297
Total revenues	<u>2,962,472</u>	<u>168,926</u>	<u>3,131,398</u>
EXPENDITURES			
Legislative	11,760	-	11,760
General government	751,421	-	751,421
Public safety	849,562	-	849,562
Public works	355,749	258,646	614,395
Community and economic development	145,665	-	145,665
Health and welfare	36,289	-	36,289
Culture and recreation	42,902	-	42,902
Capital outlay	66,142	-	66,142
Total expenditures	<u>2,259,490</u>	<u>258,646</u>	<u>2,518,136</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>702,982</u>	<u>(89,720)</u>	<u>613,262</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	702,500	702,500
Transfers out	(622,500)	(80,000)	(702,500)
Total other financing sources (uses)	<u>(622,500)</u>	<u>622,500</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	80,482	532,780	613,262
FUND BALANCES - BEGINNING	<u>442,498</u>	<u>369,586</u>	<u>812,084</u>
FUND BALANCES - ENDING	<u>\$ 522,980</u>	<u>\$ 902,366</u>	<u>\$ 1,425,346</u>

See notes to the financial statements

Charter Township of Gaines

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - *governmental funds* (Continued)**

Year ended December 31, 2006

Reconciliation of the statement of revenues, expenditures, and changes in
fund balances to the statement of activities.

Net change in fund balances - total governmental funds	\$ 613,262
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Amounts reported for *governmental activities* in the statement of activities
(page 6) are different because:

Capital assets:

Assets acquired	306,941
Provision for depreciation	<u>(283,253)</u>

Change in net assets of <i>governmental activities</i>	<u>\$ 636,950</u>
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See notes to the financial statements

Charter Township of Gaines
STATEMENT OF NET ASSETS - proprietary funds
December 31, 2006

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
ASSETS				
Current assets:				
Cash	\$ 3,154,216	\$ 1,813,389	\$ 365,746	\$ 5,333,351
Investments	1,663,205	2,428,006	-	4,091,211
Prepaid expenses	-	63,304	-	63,304
Receivables	504,025	707,284	-	1,211,309
Total current assets	<u>5,321,446</u>	<u>5,011,983</u>	<u>365,746</u>	<u>10,699,175</u>
Noncurrent assets:				
Receivables	82,769	113,127	-	195,896
Capital assets not being depreciated	30,149	1,654,832	-	1,684,981
Capital assets, net of accumulated depreciation	<u>33,268,045</u>	<u>20,874,173</u>	<u>-</u>	<u>54,142,218</u>
Total noncurrent assets	<u>33,380,963</u>	<u>22,642,132</u>	<u>-</u>	<u>56,023,095</u>
Total assets	<u>38,702,409</u>	<u>27,654,115</u>	<u>365,746</u>	<u>66,722,270</u>
LIABILITIES				
Current liabilities - payables	<u>139,906</u>	<u>267,090</u>	<u>-</u>	<u>406,996</u>
NET ASSETS				
Invested in capital assets	33,268,045	20,874,173	-	54,142,218
Unrestricted	<u>5,294,458</u>	<u>6,512,852</u>	<u>365,746</u>	<u>12,173,056</u>
Total net assets	<u>\$ 38,562,503</u>	<u>\$ 27,387,025</u>	<u>\$ 365,746</u>	<u>\$ 66,315,274</u>

See notes to the financial statements

Charter Township of Gaines
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS - proprietary funds
Year ended December 31, 2006

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
OPERATING REVENUES				
Charges for services	\$ 1,668,650	\$ 1,583,004	\$ 259,608	\$ 3,511,262
Other	<u>36,148</u>	<u>101,112</u>	<u>-</u>	<u>137,260</u>
Total operating revenues	<u>1,704,798</u>	<u>1,684,116</u>	<u>259,608</u>	<u>3,648,522</u>
OPERATING EXPENSES				
Personnel costs	52,811	52,811	238,428	344,050
Sewage treatment charges	1,249,722	-	-	1,249,722
Water charges	-	807,665	-	807,665
System operation and maintenance	243,581	346,134	-	589,715
Professional services	48,714	39,713	-	88,427
Miscellaneous	11,385	11,835	100,418	123,638
Depreciation	<u>866,035</u>	<u>514,826</u>	<u>-</u>	<u>1,380,861</u>
Total operating expenses	<u>2,472,248</u>	<u>1,772,984</u>	<u>338,846</u>	<u>4,584,078</u>
OPERATING LOSS	<u>(767,450)</u>	<u>(88,868)</u>	<u>(79,238)</u>	<u>(935,556)</u>
NONOPERATING REVENUES (EXPENSES)				
Capital contributions	490,000	780,000	-	1,270,000
Trunkage and availability fees	146,669	188,554	-	335,223
Interest revenue	227,502	231,634	-	459,136
Special assessments	12,917	67,229	-	80,146
Special assessment interest	<u>10,232</u>	<u>5,444</u>	<u>-</u>	<u>15,676</u>
Total nonoperating revenues	<u>887,320</u>	<u>1,272,861</u>	<u>-</u>	<u>2,160,181</u>
CHANGE IN NET ASSETS	119,870	1,183,993	(79,238)	1,224,625
NET ASSETS - BEGINNING	<u>38,442,633</u>	<u>26,203,032</u>	<u>444,984</u>	<u>65,090,649</u>
NET ASSETS - ENDING	<u>\$ 38,562,503</u>	<u>\$ 27,387,025</u>	<u>\$ 365,746</u>	<u>\$ 66,315,274</u>

See notes to the financial statements

Charter Township of Gaines
STATEMENT OF CASH FLOWS - proprietary funds
Year ended December 31, 2006

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 1,714,990	\$ 1,688,016	\$ 259,608	\$ 3,662,614
Payments to vendors and suppliers	(1,531,697)	(1,266,347)	(100,418)	(2,898,462)
Payments to employees	(52,811)	(52,811)	(238,428)	(344,050)
Net cash provided by (used in) operating activities	<u>130,482</u>	<u>368,858</u>	<u>(79,238)</u>	<u>420,102</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Collections of assessments receivable	39,745	31,076	-	70,821
Special assessment interest	10,232	5,444	-	15,676
Trunkage and availability fees	146,669	188,554	-	335,223
Decrease in accounts payable	-	(42,922)	-	(42,922)
Acquisition of capital assets	(47,712)	(1,479,081)	-	(1,526,793)
Net cash provided by (used in) capital and related financing activities	<u>148,934</u>	<u>(1,296,929)</u>	<u>-</u>	<u>(1,147,995)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Net change in investments	(72,995)	(106,561)	-	(179,556)
Interest received	<u>210,402</u>	<u>228,334</u>	<u>-</u>	<u>438,736</u>
Net cash provided by investing activities	<u>137,407</u>	<u>121,773</u>	<u>-</u>	<u>259,180</u>
NET INCREASE (DECREASE) IN CASH	<u>416,823</u>	<u>(806,298)</u>	<u>(79,238)</u>	<u>(468,713)</u>
CASH - BEGINNING	<u>2,737,393</u>	<u>2,619,687</u>	<u>444,984</u>	<u>5,802,064</u>
CASH - ENDING	<u>\$ 3,154,216</u>	<u>\$ 1,813,389</u>	<u>\$ 365,746</u>	<u>\$ 5,333,351</u>

See notes to the financial statements

Charter Township of Gaines
STATEMENT OF CASH FLOWS - proprietary funds (Continued)
Year ended December 31, 2006

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
Noncash capital and related financing activities:				
Acquisition of capital assets	\$ (537,712)	\$ (1,959,081)	\$ -	\$ (2,496,793)
Less capital assets contributed by developers	<u>490,000</u>	<u>480,000</u>	<u>-</u>	<u>970,000</u>
Net cash used	<u>\$ (47,712)</u>	<u>\$ (1,479,081)</u>	<u>\$ -</u>	<u>\$ (1,526,793)</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:				
Operating loss	\$ (767,450)	\$ (88,868)	\$ (79,238)	\$ (935,556)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	866,035	514,826	-	1,380,861
Decrease in receivables	10,192	3,900	-	14,092
Increase in prepaids	-	(63,304)	-	(63,304)
Increase in payables	<u>21,705</u>	<u>2,304</u>	<u>-</u>	<u>24,009</u>
Net cash provided by (used in) operating activities	<u>\$ 130,482</u>	<u>\$ 368,858</u>	<u>\$ (79,238)</u>	<u>\$ 420,102</u>

See notes to the financial statements

Charter Township of Gaines

STATEMENT OF FIDUCIARY NET ASSETS - *agency funds*

December 31, 2006

ASSETS

Cash	\$ 2,016,504
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LIABILITIES

Payables	\$ 108,724
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Due to other governmental units	1,907,780
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Total liabilities	\$ 2,016,504
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See notes to the financial statements

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Gaines, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

a) Reporting entity:

The accompanying financial statements present only the Township. There are no component units, entities for which the Township is considered to be financially accountable.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. The effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

The Township reports the following major governmental fund:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Township reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the Township's sewage collection systems.

The Water Fund accounts for the activities of the Township's water distribution system.

The Building Inspections Fund accounts for the activities of the Township's construction code enforcement.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector standards.

The Township reports two fiduciary funds, the Agency Fund and the Tax Collection Fund, which account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the government-wide financial statements.

iv) Capital assets - Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets other than infrastructure are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning January 1, 2004.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 - 60 years
Equipment	3 - 5 years
Vehicles	3 - 5 years
Sewer and water systems	50 years

v) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vi) Deferred revenue - Deferred revenue currently consists of resources received but not yet earned. (See vii below)

vii) Property tax revenue recognition - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, taxes have been deferred from recognition as revenue until the following year.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year.

Excess of expenditures over appropriations - The following schedule sets forth the significant budget variance:

<u>Fund</u>	<u>Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Township Improvement Revolving	Other financing use	\$ -	\$ (80,000)	\$ (80,000)

NOTE 3 - CASH AND INVESTMENTS:

The Township's deposits and investments were reported in the basic financial statements as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary</u>	<u>Totals</u>
Cash	\$ 1,423,560	\$ 5,333,351	\$ 2,016,504	\$ 8,773,415
Investments	53,047	4,091,211	-	4,144,258
	<u>\$ 1,476,607</u>	<u>\$ 9,424,562</u>	<u>\$ 2,016,504</u>	<u>\$ 12,917,673</u>

Deposits:

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Township's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. At December 31, 2006, \$8,442,208 of the Township's bank balances of \$9,237,821 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (Continued):

Investments:

State statutes authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, with three (3) highest rate classifications by at least two (2) rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; e) mutual funds; and f) investment pools organized under the local government investment pool act. The Township's investments consist of holdings in the Kent County Investment Pool, which are nonrisk-categorized qualifying investments, and are carried at cost, which approximates fair market value.

NOTE 4 - RECEIVABLES:

Receivables as of year end for the Township's individual major funds are as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Property taxes</u>	<u>Other governmental</u>	<u>Accrued Interest</u>	<u>Special assessments</u>	<u>Totals</u>
Governmental activities:						
General Fund	\$ 6,739	\$ 474,331	\$ 487,621	\$ -	\$ -	\$ 968,691
Business-type activities:						
Sewer Fund	\$ 391,552	\$ -	\$ -	\$ 48,100	\$ 147,142	\$ 586,794
Water Fund	656,938	-	-	34,600	128,873	820,411
Total business-type activities	\$ 1,048,490	\$ -	\$ -	\$ 82,700	\$ 276,015	\$ 1,407,205
Noncurrent portion	\$ -	\$ -	\$ -	\$ -	\$ 195,896	\$ 195,896

All receivables are considered fully collectible.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2006, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	<u>\$ 1,669,991</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,669,991</u>
Capital assets being depreciated:				
Buildings and infrastructure	<u>5,234,571</u>	<u>306,941</u>	<u>-</u>	<u>5,541,512</u>
Equipment and vehicles	<u>2,586,481</u>	<u>-</u>	<u>-</u>	<u>2,586,481</u>
Subtotal	<u>7,821,052</u>	<u>306,941</u>	<u>-</u>	<u>8,127,993</u>
Less accumulated depreciation:				
Buildings and infrastructure	<u>(452,929)</u>	<u>(141,468)</u>	<u>-</u>	<u>(594,397)</u>
Equipment and vehicles	<u>(1,017,222)</u>	<u>(141,785)</u>	<u>-</u>	<u>(1,159,007)</u>
Subtotal	<u>(1,470,151)</u>	<u>(283,253)</u>	<u>-</u>	<u>(1,753,404)</u>
Total capital assets being depreciated, net	<u>6,350,901</u>	<u>23,688</u>	<u>-</u>	<u>6,374,589</u>
Governmental activities capital assets, net	<u>\$ 8,020,892</u>	<u>\$ 23,688</u>	<u>\$ -</u>	<u>\$ 8,044,580</u>

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	514,524	1,609,774	(439,317)	1,684,981
Subtotal	514,524	1,609,774	(439,317)	1,684,981
Capital assets being depreciated:				
Sewer system	42,922,546	720,096	-	43,642,642
Water system	25,315,003	799,408	-	26,114,411
Office equipment	38,726	-	-	38,726
Subtotal	68,276,275	1,519,504	-	69,795,779
Less accumulated depreciation:				
Sewer system	(9,508,562)	(866,035)	-	(10,374,597)
Water system	(4,725,412)	(514,826)	-	(5,240,238)
Office equipment	(38,726)	-	-	(38,726)
Subtotal	(14,272,700)	(1,380,861)	-	(15,653,561)
Total capital assets being depreciated, net	54,003,575	138,643	-	54,142,218
Business-type activities capital assets, net	\$ 54,518,099	\$ 1,748,417	\$ (439,317)	\$ 55,827,199

Depreciation expense was charged to functions of the Township as follows:

Governmental activities:	
General government	\$ 164,757
Public safety	109,439
Public works	6,589
Community and economic development	2,200
Culture and recreation	268
Total governmental activities	<u>\$ 283,253</u>

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - PAYABLES:

Payables as of year end for the Township's individual major funds and nonmajor funds, in the aggregate, are as follows:

	<u>Accounts</u>	<u>Intergovernmental</u>	<u>Totals</u>
Governmental activities:			
General	\$ 45,707	\$ 84,369	\$ 130,076
Nonmajor governmental	<u>7,287</u>	<u>155,919</u>	<u>163,206</u>
Total governmental activities	<u>\$ 52,994</u>	<u>\$ 240,288</u>	<u>\$ 293,282</u>
Business-type activities:			
Sewer	\$ 10,782	\$ 129,124	\$ 139,906
Water	<u>267,090</u>	<u>-</u>	<u>267,090</u>
Total business-type activities	<u>\$ 277,872</u>	<u>\$ 129,124</u>	<u>\$ 406,996</u>

NOTE 7 - INTERFUND TRANSFERS:

The interfund transfers for the year ended December 31, 2006, are as follows:

<u>Fund</u>	<u>Transfer in</u>	<u>Fund</u>	<u>Transfer out</u>
Township Improvement			
Revolving	\$ 580,000	General	\$ 622,500
Vision For Division	<u>42,500</u>		
	622,500		
Vision For Division	<u>80,000</u>	Township Improvement	
		Revolving	<u>80,000</u>
	<u>\$ 702,500</u>		<u>\$ 702,500</u>

These transfers moved unrestricted revenues, collected in the General Fund, to the Township's nonmajor governmental funds to finance capital acquisitions, trail development, and street improvements.

NOTE 8 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for each of these claims and is neither self-insured nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - DEFINED CONTRIBUTION PENSION PLANS:

The Township maintains two separate defined contribution pension plans. The first plan covers all full time employees (over 20 hours per week) and Township Trustees. The Township contributes 10% of covered payroll to this plan on behalf of qualifying employees. All costs associated with the plan are paid or accrued currently. Township contributions for the year ended December 31, 2006, totaled \$70,026.

The second Township pension plan covers volunteer firemen and planning commission and zoning board members. The Township contributes 3.75% of covered payroll to this plan on behalf of qualifying employees, with an equal percentage contributed by all covered employees. Township contributions for the year ended December 31, 2006, totaled \$21,550.

The Township is not a trustee of these plans, nor is the Township responsible for investment management of plan assets.

NOTE 10 - JOINT VENTURE:

Byron-Gaines Utility Authority:

The Township is a member of the Byron-Gaines Utility Authority, a joint venture of the Townships of Byron and Gaines. The administrative board of the Authority consists of members appointed by each participating unit. The Authority was formed to jointly provide water and sewer services within the combined service area, which encompasses the participating municipalities. During the year ended December 31, 2006, the Township contributed \$517,741 as its proportionate share of the Authority's capital costs and operating expenses.

NOTE 11 - COMMITMENTS:

At December 31, 2006, the Township had the following contractual construction commitments:

	<i>Project authorization</i>	<i>Expended through December 31, 2006</i>	<i>Committed</i>
High pressure water main	\$ 2,027,570	\$ 417,910	\$ 1,609,660
High pressure water storage tank	952,389	800,361	152,028
High pressure water booster station	<u>1,469,888</u>	<u>96,614</u>	<u>1,373,274</u>
Totals	<u>\$ 4,449,847</u>	<u>\$ 1,314,885</u>	<u>\$ 3,134,962</u>

The high pressure system project is to be funded by available resources of the Water Fund.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 - PRIOR PERIOD ADJUSTMENTS:

Prior period adjustments have been recorded in 2006 to correct the method of accounting for tax administration fees. Fund equity as of January 1, 2006, included in the financial statements, represents restated balances as presented below. The following schedule identifies the nature and amount of the adjustments recorded.

	<u>Fund Balance</u>	<u>Net Assets</u>
	<u>General</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Activities</u>
Beginning of year, as previously reported	\$ 652,953	\$ 8,673,845
Prior period adjustments:		
Overstatement of deferred revenue	<u>159,131</u>	<u>159,131</u>
Beginning of year, as restated	<u>\$ 812,084</u>	<u>\$ 8,832,976</u>

REQUIRED SUPPLEMENTARY INFORMATION

Charter Township of Gaines**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended December 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 813,800	\$ 840,800	\$ 915,978	\$ 75,178
State grants	1,429,000	1,429,000	1,401,359	(27,641)
Charges for services	198,550	169,100	244,042	74,942
Interest and rentals	103,300	103,300	135,595	32,295
Other:				
Special assessment - street lighting	120,000	120,000	135,268	15,268
Proceeds from sale of capital assets	-	-	86,958	86,958
Miscellaneous	113,100	115,550	43,272	(72,278)
Total revenues	<u>2,777,750</u>	<u>2,777,750</u>	<u>2,962,472</u>	<u>184,722</u>
EXPENDITURES				
Legislative	<u>12,812</u>	<u>12,812</u>	<u>11,760</u>	<u>1,052</u>
General government:				
Supervisor	145,391	145,391	131,789	13,602
Elections	31,350	31,350	23,955	7,395
Assessor	121,738	121,738	119,482	2,256
Clerk	104,578	104,578	102,188	2,390
Board of review	2,928	2,928	1,778	1,150
Treasurer	107,054	107,054	101,916	5,138
Building and grounds	155,452	154,952	137,653	17,299
Cemetery	36,261	36,261	38,306	(2,045)
General administration	188,477	188,477	94,354	94,123
Total general government	<u>893,229</u>	<u>892,729</u>	<u>751,421</u>	<u>141,308</u>
Public safety:				
Police protection	265,000	288,733	304,184	(15,451)
Cutlerville Fire Department	344,473	344,473	297,356	47,117
Dutton Fire Department	326,346	326,345	248,022	78,323
Total public safety	<u>935,819</u>	<u>959,551</u>	<u>849,562</u>	<u>109,989</u>

Charter Township of Gaines

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended December 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Public works:				
Engineering	\$ 126,258	\$ 126,258	\$ 92,912	\$ 33,346
Road improvements and trails	120,000	120,000	69,534	50,466
Street lights	120,000	120,000	142,134	(22,134)
Drains	38,000	38,000	40,019	(2,019)
Hydrant rental	11,500	11,500	11,150	350
Total public works	<u>415,758</u>	<u>415,758</u>	<u>355,749</u>	<u>60,009</u>
Community and economic development - planning and zoning	<u>198,219</u>	<u>198,219</u>	<u>145,665</u>	<u>52,554</u>
Health and welfare - public transportation	<u>46,592</u>	<u>46,592</u>	<u>36,289</u>	<u>10,303</u>
Culture and recreation:				
Parks	8,554	8,554	4,712	3,842
Library	<u>31,525</u>	<u>31,525</u>	<u>38,190</u>	<u>(6,665)</u>
Total culture and recreation	<u>40,079</u>	<u>40,079</u>	<u>42,902</u>	<u>(2,823)</u>
Capital outlay	<u>78,428</u>	<u>97,895</u>	<u>66,142</u>	<u>31,753</u>
Total expenditures	<u>2,620,936</u>	<u>2,663,635</u>	<u>2,259,490</u>	<u>404,145</u>
EXCESS OF REVENUES OVER EXPENDITURES	156,814	114,115	702,982	588,867
OTHER FINANCING USES				
Transfers out	<u>(180,000)</u>	<u>(622,500)</u>	<u>(622,500)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(23,186)	(508,385)	80,482	588,867
FUND BALANCES - BEGINNING	<u>442,498</u>	<u>442,498</u>	<u>442,498</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 419,312</u>	<u>\$ (65,887)</u>	<u>\$ 522,980</u>	<u>\$ 588,867</u>

SUPPLEMENTARY INFORMATION

Charter Township of Gaines
COMBINING BALANCE SHEET - nonmajor governmental funds
December 31, 2006

	<u>Special revenue funds</u>			<u>Total nonmajor governmental funds</u>
	<u>Township Improvement Revolving</u>	<u>Vision For Division</u>	<u>Trails</u>	
ASSETS				
Cash	\$ 824,666	\$ 102,941	\$ 57,965	\$ 985,572
Receivables	<u>-</u>	<u>80,000</u>	<u>-</u>	<u>80,000</u>
Total assets	<u>\$ 824,666</u>	<u>\$ 182,941</u>	<u>\$ 57,965</u>	<u>\$ 1,065,572</u>
LIABILITIES AND FUND BALANCES				
Liabilities - payables	\$ -	\$ 163,206	\$ -	163,206
Fund balances - unreserved, undesignated	<u>824,666</u>	<u>19,735</u>	<u>57,965</u>	<u>902,366</u>
Total liabilities and fund balances	<u>\$ 824,666</u>	<u>\$ 182,941</u>	<u>\$ 57,965</u>	<u>\$ 1,065,572</u>

Charter Township of Gaines

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - nonmajor governmental funds**

Year ended December 31, 2006

	<u>Special revenue funds</u>			<u>Total nonmajor governmental funds</u>
	<u>Township Improvement Revolving</u>	<u>Vision For Division</u>	<u>Trails</u>	
REVENUES				
Contribution from local unit	\$ -	\$ 122,500	\$ -	\$ 122,500
Interest	19,960	652	2,789	23,401
Other	-	22,715	310	23,025
Total revenues	19,960	145,867	3,099	168,926
EXPENDITURES				
Public works	-	258,646	-	258,646
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>19,960</u>	<u>(112,779)</u>	<u>3,099</u>	<u>(89,720)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	580,000	122,500	-	702,500
Transfers out	(80,000)	-	-	(80,000)
Total other financing sources	<u>500,000</u>	<u>122,500</u>	<u>-</u>	<u>622,500</u>
NET CHANGE IN FUND BALANCES	519,960	9,721	3,099	532,780
FUND BALANCES - BEGINNING	<u>304,706</u>	<u>10,014</u>	<u>54,866</u>	<u>369,586</u>
FUND BALANCES - ENDING	<u>\$ 824,666</u>	<u>\$ 19,735</u>	<u>\$ 57,965</u>	<u>\$ 902,366</u>

**Members of the Township Board
Charter Township of Gaines, Michigan**

In planning and performing our audit of the financial statements of the Charter Township of Gaines, Michigan as of and for the year ended December 31, 2006, in accordance with U.S. generally accepted auditing standards, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

- Enterprise fund receivable balances for utility charges were not reconciled to their respective general ledger control accounts in a timely manner.
- The Township does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, and changes in capital assets, and to present required financial statement disclosures.

This communication is intended solely for the information and use of management, the Board of Trustees of the Charter Township of Gaines, and the State of Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.

Siegfried Crandall P.C.

May 7, 2007